



## Buying a New Vehicle

Shopping for a new car can be an overwhelming task. A new vehicle purchase is considered the second most expensive purchase for consumers after a home. It is important that consumers thoroughly research a new car before making a purchase. Consumers can protect themselves from making hasty decisions and being pressured by dealers by doing their homework and obtaining as much information as possible about the vehicle, before visiting the dealership.

### The Invoice Price

The invoice price is the manufacturer's charge to the dealer. Dealers can sell cars at or below the invoice price and still make a profit. Check publications at a library, a bookstore or on the Internet such as [www.edmunds.com](http://www.edmunds.com) or [www.kelleybluebook.com](http://www.kelleybluebook.com) to obtain the invoice price for specific models. If freight is already included in the invoice price, make sure freight is not added again to the sales contract. The invoice price should be your starting point from which you should determine what to pay for the car.

### Check For Rebates

It is important for new car purchasers to deduct from the invoice price all **rebates** which they are qualified to receive. Check the newspaper or internet sources such as [www.kelleybluebook.com](http://www.kelleybluebook.com) or [www.edmunds.com](http://www.edmunds.com) for current rebates. Some rebates may not be available if a consumer chooses a manufacturer's special financing rate. Additionally, special manufacturer financing may only be available to consumers with good credit.

To determine if it is better to take a manufacturers rebate or special low financing, consumers should compare the cost of purchasing a car reduced by the rebate and financed through an outside lender *with* the cost of purchasing the vehicle without the rebates but with the manufacturer's offered special financing. Calculators, available on the internet at sites such as [www.bankrate.com/brm/calculators/autos.asp](http://www.bankrate.com/brm/calculators/autos.asp). can help assist consumers in determining whether to choose a manufacturer's rebate or special financing.

### Don't Pay Too Much, The Monroney Sticker Price

Consumers should not purchase the car based on the **sticker price** affixed to the car at the dealership but, instead, negotiate up from the invoice price. The Monroney Sticker Price shows the manufacturer's suggested retail price (MSRP), the base price, the manufacturer's installed options with the manufacturer's transportation charge and the fuel economy mileage. The MSRP is required by federal law and is affixed to the vehicle.

### Supplemental Sticker-Take Caution

Sometimes dealers will put a **supplemental sticker** next to the Monroney Sticker on a new car. This supplemental sticker includes additional options which the dealer has installed. Consumers may not

want to purchase these options, as their prices may be highly inflated and profitable for the dealer.

### Know What You Should Pay

Consumers should do their homework before negotiating the price with the dealer.

Consumers should always go into the dealership knowing the invoice price for specific model and options they are seeking to purchase.

Knowing the invoice price, minus any applicable rebates, provides consumers a starting point to begin negotiations. Consumers can find out

the car invoice cost by researching publications through a variety of sources. Check publications at a library, a bookstore or on the Internet sites such as [www.edmunds.com](http://www.edmunds.com) or [www.kelleybluebook.com](http://www.kelleybluebook.com) to obtain the invoice cost for specific models and options.

Dealer's Invoice Price

- Rebates

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Your Price + Taxes, Title, License  
and Documentary Fee

### Get A Copy Of Your Credit Report And Shop Around For Financing

If a consumer is planning on financing their new car purchase, they should obtain a copy of their credit report from one of the three credit reporting agencies **before** they begin shopping for a vehicle<sup>1</sup>. Consumers should then take the time to shop for the lowest finance source. To obtain the lowest financing source, consumers should obtain financing quotes from their local banks, credit unions, and via the internet at sites such as [www.bankrate.com](http://www.bankrate.com).

By obtaining your credit report and shopping for the lowest financing source, consumers will protect themselves from being charged an unreasonable and unnecessarily high interest rate when purchasing a new car. Vehicle purchasers have every right to finance a new car with a lender that is not associated with the dealership.

### Dealer Arranged Financing–Get The "Buy Rate"

When a dealer arranges car financing for a consumer with a bank or other credit provider, the interest rate charged the consumer will often include a payment to the dealer. This payment to the dealer comes at the expense of the consumer. The lender quotes the dealer the lowest interest rate the buyer qualifies for, which is commonly referred to as the **"buy rate,"** and the dealer quotes a higher rate to the buyer. The difference between the dealer-offered rate and the "buy rate" is called the **"yield spread premium."**

Some dealers never disclose the "buy rate" to consumers, nor the amount of money the dealership is making for arranging financing ("yield spread premium"). If you finance through the dealer you want

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<sup>1</sup> Information on how to obtain a credit report can be obtained from the Illinois Attorney General's fact sheet, "Things You Should Know About...Credit Reporting."

<http://www.IllinoisAttorneyGeneral.gov/consumers/creditreport.pdf>

the "buy rate." **Ask the dealership to disclose to you, in writing, both the "buy rate" and the "yield spread premium."**

Consumers should compare the dealer quoted annual percentage rate *with* financing quotes from their local banks, credit unions, and the internet, and choose the lowest annual percentage rate.

### **Taxes, Title and Doc Fees**

Under Illinois law a dealer may add to the contract a "**documentary fee**" for processing documents and performing services relating to closing of the sale, as well as taxes, license and title fees. However, the documentary fee is illegal if it exceeds \$53.52<sup>2</sup>. Consumers should do their homework, know exactly which vehicle and options they want, ask questions throughout the negotiation process, and read all documents carefully to protect their money and avoid paying more than is necessary for a new vehicle.

### **Trade In**

The first thing a dealer may ask a new car purchaser is if he or she is trading in an old vehicle for a new one. **Consumers should not discuss the trade in of their vehicle until after the purchase price of the new car is finalized.** It is extremely important to keep the trade out of the new car purchase negotiation.

Learn the value of your trade in vehicle before you go to the dealership. Check with lending institutions or on the Internet at sites such as [www.kelleybluebook.com](http://www.kelleybluebook.com) or [www.edmunds.com](http://www.edmunds.com).

Some dealerships want their purchasers to believe that they are getting more for their trade in vehicle. Therefore, the dealer may inflate the trade in price. However, the dealer may also inflate the purchase price. This practice is commonly referred to as the "**double bump**." This is especially likely to happen when you owe more money on your trade in than it is worth and the dealer is attempting to demonstrate to a lender an equity which does not exist. The result is that you will be deeper in debt.

Consumers that owe money on their trade in vehicles should follow up with the dealer to make sure the trade in vehicle loan is promptly paid off. Consumers are responsible for the trade in vehicle loan until it is paid off by the dealership.

### **After Sale**

After consumers have negotiated the sale price of the purchased vehicle, dealerships will attempt to sell products and options such as rust proofing, scotch guard, gap insurance, credit life and disability insurance, pin striping, window etching and floor mats. These extra options are usually highly inflat-

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<sup>2</sup> As of January 2004. Adjusted annually by the Consumer Price Index.

ed to maximize dealer profit and may not be advisable for purchase. **If a dealer informs you that a bank or lending institution is requiring purchase of any of these "after sale" products, ask the dealership to put this demand in writing.**

### **Extended Service Contract**

A **service contract** or **extended service contract** may be offered to the purchaser to provide for the repair of certain parts or problems. These contracts are offered by manufacturers, dealers or independent companies and may or may not provide coverage beyond the manufacturer's warranty. Keep in mind that a manufacturer's warranty is included in the price of the car, but a service contract costs extra.

An important factor in whether to purchase a service contract is the length of time you plan to keep the vehicle. For instance, if you already have a three-year warranty on the car and you plan to keep the car for three years, a service contract is unnecessary and will cost you extra money. Do your homework and know exactly what you want in a vehicle to avoid being haggled by the dealer.

Extended service contracts are a high profit item for the dealer. For example, an extended service contract may cost the purchaser \$1,500.00, however, it might cost the dealer only \$500.00. Like other products at the dealership, extended service contracts may be negotiable, ask the dealer for their cost and negotiate.

### **Spot Delivery**

Consumers utilizing dealer arranged financing should not sign a financing contract nor take possession of a vehicle if there is any doubt concerning the approval of the lender. In a practice known as "**spot delivery**" dealers agree to take a down payment and allows the buyer to take the car home before financing is finalized. Before executing a financial contract and taking possession of the purchased vehicle, consumers should demand that the dealership put in writing that the financing from the dealer arranged lender is finalized.

A common example of spot delivery is a situation in which a consumer decides to purchase a particular car for \$8,000.00 after paying a \$500.00 down payment and giving a trade in. The dealer lets the purchaser take the car home, while making the purchaser believe that a loan at an interest rate of 11% is attainable. After the purchaser drives the car for a few days, the dealer tells the purchaser that he or she must bring the car back because the financing could not be approved for 11%. Instead, the dealer claims that the lender will only finance the car at a rate higher than 11%, such as 16%. The consumer can and should bring the car back and walk away with their deposit and trade in with no obligation. Instead, the psychological effect this practice has on purchasers makes them think they are obligated to put more money down, find a cosigner for the vehicle or find another car, when in fact there is no obligation to do anything.

Consumers should be aware that, under Illinois law, if the purchase of a vehicle is conditioned on the purchaser having an acceptable credit rating to the dealer and the dealer can not obtain financing for the consumer at the contracted terms, the dealer must return to the purchaser any down payment or

trade in under the contract. **Consumers do not have to bring additional money for the down payment, pay a higher interest rate or find a cosigner.** If the dealership does not secure financing at the contract terms, Illinois law requires consumers to return the car to the dealership and for the dealer to return to the consumer their down payment and trade in.

### **No Three Day Right to Cancel**

Dealers are not required by law to give car buyers a **three-day right to cancel**. The right to return the car in a few days for a refund exists only if financing is not approved. However, some dealers may, by contract, offer a right to cancel. If dealers put the right to cancel in writing, they are bound.



Chicago  
1-800-386-5438  
TTY: 1-800-964-3013

Springfield  
1-800-243-0618  
TTY: 877-844-5461

Carbondale  
1-800-243-0607  
TTY: 877-675-9339



## Credit Reporting

If you have ever been issued a credit card, received a personal loan, obtained a mortgage or held a job, chances are someone is keeping a file on you. This file contains information on how you pay your bills, whether or not you've been sued, and if you've filed for bankruptcy. Companies that gather and sell this information are called Consumer Reporting Agencies, or CRAs. The three most common are Equifax, Experian and TransUnion.

### What's in a Credit Report

Congress passed the Fair Credit Reporting Act requiring CRAs to provide correct and complete information to businesses to use in evaluating your applications for credit, employment or insurance. Credit reports are only provided to those with a legitimate business need. CRAs generally report unfavorable information for a period of seven years. Exceptions include bankruptcy information, which can be reported for ten years, and information concerning a lawsuit or judgement against you, which can be reported for seven years or until the statute of limitations runs out, whichever is longer. When applying for a job with a salary of more than \$20,000 or for more than \$50,000 worth of credit or life insurance, there is no time limitation for reporting credit information.

### Know What's in Your Credit Report

If you request it, the CRA is required to tell you about the information in your report and, in most cases, the sources of that information. You also have the right to be told the name of anyone who received a report on you in the past six months. If you filed an application for credit and it was denied based upon information supplied by a CRA, you can request a free report within 30 days of receiving the denial. If you have not recently received a denial but still wish to receive a report, you may be charged a reasonable fee. To receive a copy of your report, contact:

#### Experian

P.O. Box 2002  
Allen, TX 75013  
888-397-3742 (voice)  
800-972-0322 (TTY)  
[www.experian.com](http://www.experian.com)

#### Equifax

P.O. Box 740241  
Atlanta, GA 30374-024  
800-685-1111  
[www.equifax.com](http://www.equifax.com)

#### TransUnion

Two Baldwin Place  
1510 Chester Pike  
Crum Lynne, PA 19022  
800-888-4213  
[www.transunion.com](http://www.transunion.com)

### Fixing Credit Report Errors

If you find inaccurate or incomplete information in your credit report, notify the CRA immediately. They are required to re-investigate the items in question. If the new investigation reveals an error, a corrected version must be sent, at your request, to anyone who received your report in the past six months. If the new investigation doesn't resolve your dispute, request that the CRA include your version or a summary of your version of the disputed information in your file and in future reports. There is no charge for this service if it is requested within 30 days after you receive notice of your application denial.

## **Fixing a Poor Credit History**

Unfortunately, there are no quick or easy cures for a poor credit history. Time is the only thing that will repair your credit report. There is a brisk business among so-called “credit repair” companies which charge from \$50 to more than \$1,000 to “fix” your credit report. The only information in your credit report that can be changed are items that are actually wrong. If that’s the case, you can fix the errors yourself for free.

## **Credit Counseling**

While only time can fix a poor credit history, there are some organizations that may be able to help if you find yourself confronted by overwhelming money problems. Many of these problems arise from inflation, overuse of credit, faulty planning or a lack of money management. For example, a credit counseling corporation may be an option. These non-profit corporations offer specialized counseling services to over-indebted consumers and handle their money as their agent. The corporations may charge a nominal fee for services provided. A credit counseling corporation is not a lending institution, charity, government or legal institution. Consumer credit counseling corporations must be registered with the Illinois Secretary of State Index Bureau and the Department of Financial Institutions.

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